



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Number: **200644049**

Release Date: 11/3/2006

Date: August 8, 2006

Contact Person:

Identification Number:

UIL 4945.00-00

Telephone Number:

Employer Identification Number:

Dear _____ :

We considered your letter dated February 22, 2005, requesting advance approval of your grant-making procedures under section 4945(g) of the Internal Revenue Code (the "Code").

You are exempt under section 501(c)(3) of the Code and are classified as a private foundation under section 509(a).

You intend to award scholarships (depending on the availability of funds) to applicants who have graduated from high school or its equivalent and are enrolled or about to enroll in an accredited college or university. To be eligible for consideration, an individual must demonstrate superior academic achievement evidenced by a high honors distinction for their high school degree. Additionally, the applicant must demonstrate the character and motivation to obtain an education, and persevere to complete their education. Finally, the applicant must demonstrate a financial need and be affiliated with a country in the southeastern Mediterranean or Balkans. The applicant must submit an application that contains the following information: (i) past academic performance, (ii) school transcripts, (iii) a curriculum vitae describing academic record and extracurricular interests, and (iv) a letter of recommendation. Publicity regarding your grants and copies of the required application will be made available to administrators at various high schools.

Under your program procedures, your board of directors will contact administrators at various schools and advise them of the availability of the scholarship and request that deserving students submit a completed application for review. Grant recipients will be selected by a selection committee consisting of the chairman and the vice-chairman of your board of directors. The selection committee will base its selection of an applicant on the above criteria. In no event will a "disqualified person" with respect to you be eligible for a grant.

Each grant will be paid by you directly to the relevant educational institution for use by the scholarship recipient. The educational institution will agree in writing to use the grant funds to defray the scholarship recipient's expenses as long as the student continues in good standing.

An express condition of the grant is that it will only be used for qualified tuition and related expenses within the meaning of section 117(b) of the Code (for tuition and fees required for the enrollment or attendance of the grantee at a qualified educational institution and for fees, books, supplies, and equipment required for courses of instruction at such an educational institution) and room and board related to the attendance of the grantee at a qualified educational institution. An additional condition of the grant is that no part of the grant will be used as payment for teaching, research, or other services by the grant recipient.

You will require a full progress report at least once a year from the student grantee. The grantee must maintain a minimum overall grade point average of 3.0 at all times to remain eligible for continuation of the scholarship grant.

Section 4945(a) and (b) of the Code impose certain excise taxes on expenditures defined as taxable expenditures by section 4945(d). Section 4945(d)(3) includes in the definition of taxable expenditures any amount paid or incurred by a private foundation as a grant to individuals for travel, study, or similar purposes by such individual, unless such grant satisfies the requirements of section 4945(g).

Section 4945(g) of the Code provides that section 4945(d)(3) shall not apply to individual grants awarded on an objective and nondiscriminatory basis pursuant to a procedure approved in advance if it is demonstrated that:

1. The grant constitutes a scholarship or fellowship that is subject to the provisions of section 117(a) and is to be used for study at an educational institution described in section 170(b)(1)(A)(ii);
2. The grant constitutes a prize or award that is subject to the provisions of section 74(b), if the recipient of such prize or award is selected from the general public; or
3. The purpose of the grant is to achieve a specific objective, produce a report or similar product, or improve or enhance a literary, artistic, musical, scientific, teaching, or other similar capacity, skill, or talent of the grantee.

Section 53.4945-4(b)(2) of the Regulations provides that ordinarily, selection of grantees on an objective nondiscriminatory basis requires that the group from which the grantees are selected be chosen on the basis of criteria reasonably related to the grant and that the group must be sufficiently broad so that the giving of grants to members of such group would be considered to fulfill a purpose described in section 170(c)(2)(B) of the Code

Section 53.4945-4(c)(1) of the Foundation Excise Tax Regulations provides that to secure approval of a grant-making procedure a private foundation must demonstrate that:

- a. The grant procedure includes an objective and nondiscriminatory selection process;
- b. The procedure is designed to result in the performance of the activities intended to be financed; and,

- c. The foundation will obtain reports to determine whether the grant funds are being properly used.

No single procedure or set of procedures is required.

Your grant-making procedures, as described, satisfy the requirements of section 53.4945-4(c)(1) of the Regulations. Your selection committee will not be in a position to derive a private benefit, directly or indirectly, if certain grantees are selected over others. The group from which you select grantees is sufficiently large to constitute a charitable class, and your criteria for selection are reasonably related to the purpose of your grants. By making the scholarship funds available to the recipient through the educational institution, you are ensuring that the funds will be used for proper purposes. By requiring the scholarship recipient to provide a progress report to you once a year demonstrating academic achievement, you have met the reporting requirements of section 53.4945-4(c)(1) of the Regulations.

Therefore, assuming that your scholarship program will be conducted as proposed, with a view toward providing objectivity and nondiscrimination in the awarding of grants, we have determined that your procedures in the awarding of scholarship grants comply with the requirements of section 4945(g)(1) of the Code, and that scholarships granted in accordance with such procedures will not constitute "taxable expenditures" within the meaning of section 4945(d)(3). In addition, we have determined that grants made under your procedures are excludable from the recipient's gross income under section 117 of the Code.

This determination is conditioned on the understanding that there will be no material change in the facts upon which it is based. It is further conditioned on the premise that no grants will be awarded to your organization's creators, officers, directors, trustees, or members of the selection committee, or for a purpose inconsistent with the purposes described in section 170(c)(2)(B) of the Code.

The approval of your grant-making procedures herein constitutes a one-time approval of your system of standards and procedures designed to result in grants that meet the requirements of section 4945(g)(1) of the Code. Thus, approval shall apply to subsequent grant programs as long as the standards and procedures under which they are conducted do not differ materially from those described in your original request.

This ruling will be made available for public inspection under section 6110 of the Code after certain deletions of identifying information are made. For details, see enclosed Notice 437, *Notice of Intention to Disclose* o individuals should show names, addresses, purposes of grants, manner of selection, and relationships (if any) to members, officers, trustees or donors of funds to you. A copy of this ruling with deletions that we intend to make available for public inspection is attached to Notice 437. If you disagree with our proposed deletions, you should follow the instructions in Notice 437 .

This ruling is directed only to the organization that requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited by others as precedent.

If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Steven Grodnitzky
Manager, Exempt Organizations
Technical Group 1

Enclosure
Notice 437